CONTENTS

Preface xi
Acknowledgments xv

Chapter 1
Introduction 1

PART ONE
FOUNDATIONS

Chapter 2
Consensus Expected Returns: The Capital Asset Pricing Model 11

Chapter 3
Risk 41

Chapter 4
Exceptional Return, Benchmarks, and Value Added 87

Chapter 5
Residual Risk and Return: The Information Ratio 109

Chapter 6
The Fundamental Law of Active Management 147

PART TWO
EXPECTED RETURNS AND VALUATION

Chapter 7
Expected Returns and the Arbitrage Pricing Theory 173
Chapter 8
Valuation in Theory 199

Chapter 9
Valuation in Practice 225

PART THREE
INFORMATION PROCESSING

Chapter 10
Forecasting Basics 261

Chapter 11
Advanced Forecasting 295

Chapter 12
Information Analysis 315

Chapter 13
The Information Horizon 347

PART FOUR
IMPLEMENTATION

Chapter 14
Portfolio Construction 377

Chapter 15
Long/Short Investing 419

Chapter 16
Transactions Costs, Turnover, and Trading 445

Chapter 17
Performance Analysis 477